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THE NATIONAL CITY BANK OF NEW YORK

1929

Economic Conditions
Governmental Finance
United States Securities

New York, September, 1929.

General Business Conditions

THE activity of manufacturing and trade has remained high during the past month and such slackness as has been disclosed is no greater than normally occurs in August due to hot weather and vacations. Most of the key industries are free from any serious accumulation of inventories and in a sound position. In certain lines where production has run ahead of shipments, as in the case of automobile tires, prompt steps are being taken to control output, while in other lines where signs of overproduction appeared not long ago, as in cotton goods, the situation has already been corrected. Throughout the Summer now drawing to a close employment of labor has been maintained at the highest level for several years back, and payrolls are estimated to have been approximately ten per cent larger than last year. Favorable conditions mark the arrival of the Autumn season, and confidence in a large wholesale and retail trade is increasing.

Tightness of the money market has apparently not yet had any harmful effect on general business, save in certain classes of building construction. Such barometers as electric power consumption indicate that manufacturing activity in the major industries is still running ahead of a year ago, even though there has been some decline from the peak of last Spring. Railroad freight car loadings are higher than in any previous year. Steel mills are operating at better than 90 per cent of capacity and ingot production points to a new high record of approximately 58,000,000 gross tons for the full year, compared with 49,853,000 tons in 1928. Coal production has been well maintained during the Summer and has begun its seasonal expansion earlier than usual this year. Machine tool sales are in better than normal volume, according to a recent survey by The American Machinist, which notes a large demand for standard production machinery and an indication that September will bring improved conditions in the small tool field also. Railway equipment buying has enjoyed a marked recovery this year, the orders placed for freight cars being 162 per cent larger than in the corresponding period of 1928 and orders for locomotives 228 per cent larger. Prices of cement, on the other hand, have just been reduced 20 to 30 cents a barrel, reflecting overproduction and foreign competition.

Building Activity Maintained

That the nation's program of building construction has not been halted by tight money is apparent, but there is occurring a marked shifting around of the different classes of construction. Contracts awarded in July increased sharply above the June figures and the month's total of $652,400,000 as compiled by the F. W. Dodge Corporation were the highest ever recorded with the exception of May, 1928. Preliminary figures for August indicate awards of approximately $490,000,000, which would bring the total for this year up to September 1 around $4,174,000,000, compared with $4,545,000,000 in the corresponding period of 1928. As this represents a decrease of only 8.2 per cent from the record year, the showing is regarded as favorable, and the volume of contemplated work not yet contracted for is also holding up very well.

Public utility construction has resulted in excellent demand for electrical equipment and various copper products. Copper buying by fabricators is once more coming to the fore after the general lull in the market that followed the price flurry last Spring. Production curtailment plans of producers have had their effect in keeping stocks of the metal within reasonable bounds, world production of blister in July amounting to 174,547 tons, and inventories of refined copper at the end of the month being slightly under 100,000 tons, these figures representing no consequential change from the previous month. Price of electrolytic has held firm at 18 cents per pound and apparently the refined metal back-logs of both domestic and foreign consumers have been reduced enough for them to make inquiry in the open market. For the first twenty-eight days of August foreign sales of copper aggregated 49,000 tons, compared with 36,000 tons for the entire month of July, and were in excess of the total sales

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for April, May, and June combined. At present there is no evidence of any decrease in the rate of copper consumption, which is steadily gaining in a widening field of industry.

Motor Production Establishing Record

Automobile production turned upward again in August, after slowing down somewhat in July incident to taking inventory and bringing out new models. During the first seven months of the current year the output of passenger cars and trucks in United States and Canadian plants amounted to 3,929,545 units, and August is expected to approximate 550,000, bringing the eight months total to 4,479,545 units. This represents a gain of 1,243,181 cars, or 38.5 per cent over the corresponding period last year, and it is estimated that by September 15 there will have been as many cars produced as in the entire twelve months of 1928, the previous record year.

A large part of the gain this year is to be attributed to the Ford Motor Company which began assembly on its new Model A in December, 1927, and since then has steadily built up production to around 9,000 daily at the present time. Although detailed information as to the Ford output is not regularly published, it may be closely estimated by a comparison of the production figures compiled by the United States Department of Commerce and the Dominion of Canada Bureau of Statistics, with the figures of factory sales by members of the National Automobile Chamber of Commerce, the difference representing principally the production of Ford Motor Company, which is not a member. For the first eight months (August estimated) of 1928 and 1929 the Chamber of Commerce members' figures increased from 2,863,932 to 3,006,106, a gain of 142,174 units. During the same period the estimated production of non-members, principally Ford, increased from 372,000 to 1,473,000, a gain of 1,101,000 units. Thus Ford Motor Company has accounted for nearly nine-tenths of the total increase this year for the industry as a whole, and is now making 35 per cent of all automobiles manufactured. The several divisions of General Motors Corporation supply about 30 per cent and the remainder is divided among more than fifty other manufacturers.

Corresponding to the record automobile production this year the demand for tires has shown a large increase, but output of tires increased still more, resulting in the piling up of rather burdensome stocks, as shown by the following statistics covering the first six months just issued by the Rubber Manufacturers Association (000's omitted).

Total Pneumatic Casings	Six Months 1928	Six Months 1929	Per cent Change
Production	38,507	47,772	+24.0
Shipments	35,884	40,380	+12.5
Inventory June 30	12,368	18,132	+46.7
Total Inner Tubes			
Production	40,350	43,026	+ 6.4
Shipments	36,372	40,657	+11.8
Inventory June 30	17,160	18,741	+ 9.2

Although it is to be expected that as tire sales increase, the inventories should increase also, the above figures clearly indicate that stocks of outer casings on hand have been increased out of proportion to the volume handled. This condition was caused by the large plant capacity in the industry and the desire of each company to expand its own production to the maximum so as to lower costs and to better meet competition. Account must also be taken of the fact that tires are better made now than ever before, and of the influence of paved roads throughout the nation, which decrease wear on tires and add to mileage. It has been found that tire replacement demand is not a constant but a variable that is being revised downward. Changing conditions such as the above naturally result in keen competition and there has been some cutting of prices by manufacturers and dealers, and also by the mail order houses which distribute large quantities of tires made for them under special contract and sold under their own trade names. Although inventory of inner tubes does not show a large increase compared with the year previous, the figure of June 30, 1928 was considered quite high, and it is therefore important that the trade continue the efforts being made toward holding production in check.

Weekly petroleum production continues to strike new high levels in spite of agitation for curtailment, and conditions in this industry are still unsettled due to the accumulation of stocks. Eastern crude markets, which supply lubricants principally, had price mark-ups four months ago, but recently felt the effects of Pacific Coast and Southern increased production and prices have been shaded to some extent. As an offset to the difficulties in crude and lubricating oils, however, gasoline consumption appears impressive. Every state in the Union now has a gasoline tax, ranging from 2 to 6 cents per gallon, but apparently this is not having any appreciable effect on the consumption of gasoline. On the basis of the United States Bureau of Mines figures, domestic consumption in the first six months of this year amounted to 172,702,000 barrels, or an increase of 15 per cent over the corresponding period last year, which is identical with the average annual increase over the last ten years.

Revised Profits Tabulation

In last month's issue of this Bulletin we presented a tabulation of the earnings of 650 corporations that had published their statements

for the first half year. Because of the widespread public interest that has been shown in these studies and the fact that such a large number of additional reports were issued during August, we have brought the tabulation down to date and are giving revised figures as follows:

CORPORATION SEMI-ANNUAL REPORTS

Net Profits—000's Omitted

No.	Industry	Six Months 1928	1929	Per cent Change
7	Amusement	$ 8,303	$ 13,793	+ 68.4
15	Apparel	7,837	7,460	— 4.8
21	Automobile	226,950	236,295	+ 4.1
40	Auto Accessory	40,016	64,917	+ 62.4
6	Aviation	7,546	12,522	+ 66.2
20	Building Material	14,096	19,166	+ 36.0
18	Chemicals-Industrial	62,597	79,785	+ 27.4
14	Chemical Products	19,844	22,579	+ 13.8
12	Coal Mining	2,864	4,241	+ 48.0
12	Copper	26,714	50,668	+ 89.6
20	Electrical	48,017	65,554	+ 36.5
13	Flour and Baking	28,891	33,810	+ 17.1
23	Food Products	55,001	61,445	+ 12.7
20	Household Goods	18,555	23,469	+ 26.5
35	Iron and Steel	93,450	189,209	+102.0
5	Leather	1,923	D-3,548	— ....
37	Machinery	22,888	35,413	+ 54.7
27	Merchandising	26,368	34,562	+ 31.1
19	Metals, non-ferrous (exc. copper)	21,809	30,797	+ 41.2
13	Office Equipment	11,711	15,228	+ 30.0
5	Paint and Varnish	3,228	4,702	+ 45.7
9	Paper Products	5,220	6,031	+ 15.5
40	Petroleum	61,130	107,754	+ 76.4
9	Printing & Pub.	16,382	18,930	+ 15.6
12	Railway Equipment	17,866	25,386	+ 42.2
7	Real Estate	5,359	7,563	+ 41.1
7	Restaurant Chains	3,580	3,154	— 11.9
6	Rubber	D-6,328	17,342	+ ......
3	Shipping	857	2,394	+179.0
5	Shoes	8,972	8,605	— 4.1
14	Textile Products	5,446	6,761	+ 24.2
8	Tobacco	5,635	6,762	+ 20.1
34	Miscellaneous	20,409	28,506	+ 39.6
536	Mfg. and Trading	909,464	1,241,435	+ 36.6
185	Railroads	462,025	563,347	+ 21.9
100	Tel. & Tel.	128,645	137,625	+ 7.1
95	Other Utilities	430,458	507,500	+ 17.9
916	Grand Total	$1,924,264	$2,449,907	+ 27.4

D-Deficit.

Combined net profits of over 900 corporations whose reports have now been issued aggregate $2,449,000,000 for the first half of the current year compared with $1,924,000,000 in the corresponding period of 1928, representing an increase of $526,000,000, or 27 per cent. In the tabulation of the month previous, based on 650 companies, the gain over last year amounted to 24 per cent, and the improved showing is due to the addition of favorable reports in the copper, petroleum and rubber industries.

The 536 industrial and trading companies as a group made a gain in the half year of 36 per cent over 1928, and a particularly good showing was made by such other lines as aviation, auto accessories, iron and steel, machinery, paint, real estate, railway equipment and shipping. Eight out of every ten individual reports showed higher earnings than last year, while only three were lower. Taking the combined earnings of the companies making up each particular line of business, it is found that the group total is ahead of last year in 29 out of 33 major classifications.

Earnings of the railroads so far this year, though not showing quite so spectacular an increase as the industrials, nevertheless were 21 per cent ahead of 1928 and the results for the full twelve months will undoubtedly set a new high record. This gain was partly the result of increased traffic but more largely due to improved efficiency and further economies. The increase in gross operating revenues for the first six months, amounting to 5.2 per cent, fell far short of the increase in net, while the increase in operating expenses was only 1.7 per cent, despite the larger volume of traffic.

Space does not permit our discussing in detail these tabulations of corporation profits classified by major industrial groups that have been appearing from time to time in this Bulletin. Recently two pioneering books have been published on this subject which can be recommended. "Corporation Profits," by Lawrence H. Sloan, Editor of the Standard Statistics Company, New York, in an exhaustive study based on published reports to stockholders, while "Corporate Earning Power," by William Leonard Crum of Stanford University, California, is a similar comprehensive study, based on income tax returns as summarized and published by the Treasury Department.

Money and Banking

The principal developments of the month in the money market were the advance in the rediscount rate of the Federal Reserve Bank of New York from 5 to 6 per cent, and a concurrent reduction in the Reserve bank buying rate for acceptances from 5¼ to 5⅛ per cent.

The advance of the rediscount rate came as a distinct surprise to the financial community, as it had been generally assumed that the efforts of the Federal reserve authorities to check the expansion of stock market credit would be suspended until the completion of the crop moving period. There had even been a good deal of talk about a "reversal of Federal Reserve policy," and some commentators had professed to see the imminence of easier money, despite the continuance of commercial and speculative credit demands at peak levels.

This feeling of confidence in the maintenance of the status quo of official discount rates was notwithstanding a very marked expansion in stock market credit during recent weeks. Ever since the low point of the May break in stock prices which had carried brokers' loans at the end of May and early in June down around $5,280,000,000 (Federal Reserve figures), or the lowest of the year, these loans had been

advancing almost continuously. By August 7 the advance for a period of eight weeks had amounted to over $700,000,000, or at the rate of nearly $100,000,000 a week, bringing the total to above the $6,000,000,000 level for the first time on record and to a point over $200,000,000 in excess of the Spring peak reached March 20.

So pronounced an expansion of credit at any other time would undoubtedly have prepared the public mind for some action by the authorities, but in the present instance action was not generally suspected for the reasons already given. Consequently, the advance of rate, when it did come, was unexpected and caused an immediate and violent break in the stock market. This, however, was followed quickly by a rally when it became apparent that funds sufficient to maintain an orderly market were being supplied by New York banks and when the significance of the Reserve bank's lowered purchase rate on acceptances was more generally understood.

Significance of Reserve Bank Discount and Buying Rate Changes

These opposing movements in the rates at which the Reserve banks stand ready to take paper under rediscount from member banks and those at which they are willing to buy bills in the open market are interpreted as an effort on the part of the central banking authorities to confine the expected Autumn increase in Federal Reserve credit as closely as possible to strictly agricultural and commercial needs, and to prevent its diversion to the stock market. The theory is that the higher discount rate will put an additional deterrent in the way of member bank borrowing at Reserve banks, some of the proceeds of which might find its way into the stock market. At the same time the lowered purchase rate will make Federal reserve credit more readily available to the bill market. Since acceptances are drawn largely in the financing of commerce and agriculture, the extension of Federal reserve credit in this way is held to provide greater assurance that the funds so released will not be subjected to misuse.

Whether, as a matter of fact, it will work out this way or not remains to be seen. There is a good deal of doubt about the proposition that the Reserve authorities can control the use to which credit is put, and once Federal reserve credit has been released it is likely to go where there is the greatest demand for it. After all, there is nothing to prevent a bank from selling acceptances to the Reserve banks and using the proceeds in the stock market, if it chooses to do so. While the advance of the rediscount rate will doubtless exert an influence towards preventing a flow of Federal Reserve credit into the security markets, a far more important influence is likely to be the manner in which the Reserve banks conduct their acceptance operations. If the volume of Reserve credit put out in this way is kept in step with the expanding seasonal commercial and agricultural demands, the objects of the Reserve banks may be attained. If, on the other hand, the rate of acceptance buying proceeds too rapidly, permitting an overflow of Reserve credit for other than business uses, the purposes of the Reserve banks are likely to be defeated. Last year, it will be recalled that heavy acceptance purchases by the Reserve banks in excess of purely seasonal requirements were a factor in reducing member bank indebtedness and easing money for stock market purposes, and it is probable that similar action this year would produce similar results despite the higher discount rate.

Effect of Rate Changes

Thus far it must be admitted that the tangible results of the recent Federal reserve rate action have not been impressive. Stock prices, after a momentary break, have rallied and are higher than ever before. Brokers' loans, after a decline of $68,000,000 in the week following the discount rate increase, rose $133,000,000 in the week of August 21 to a new high record of $6,085,000,000, and are still rising.

While brokers' loans made by New York banks for their own account showed an obedient reduction of $163,000,000 between August 7 and August 21, the effect of this curtailment of banking credit was far more than offset by an increase of $229,000,000 in loans placed for account of "others," principally corporations and other large private lenders over whose operations the Federal reserve has no control. Thus banks, in cooperating with the Federal reserve, have simply handed over a portion of their lucrative call money business to their own depositors who are now lending direct and the expansion in total stock market credit has continued unchecked.

The following table based on Federal reserve figures shows the trend of brokers' loans by groups during August, and compares the totals this year with those of a year ago:

(In Millions of Dollars)

	Aug.21 1929	Aug.14 1929	Aug.7 1929	Aug.22 1928
For Own Account	926	965	1,087	809
For Out-of-Town Banks	1,787	1,810	1,789	1,513
For Account of "Others"	3,372	3,178	3,143	1,880
Total Brokers' Loans	6,085	5,953	6,019	4,202

Nor is there evidence of any important change in the position of the Reserve banks as a result of their rate action. At the New York Reserve Bank, where the rediscount rate was advanced, the volume of member bank borrowing decreased by $150,000,000 between August 7 and August 21, but much of this decrease

appears to have been due to a shifting of credit demands to other districts, since the total volume of member bank borrowing at all Reserve banks was down by only $78,000,000.

Moreover, against this decrease of $78,000,000 in rediscounts, Reserve banks show an increase of $53,000,000 in holdings of "bills bought in the open market," most of which is understood to represent advances to acceptance dealers on bills taken under 15-day repurchase agreement rather than outright purchases by the Reserve banks for their own account. Such transactions are similar in character to rediscount operations, except that they represent loans to non-member dealers and are made at the Reserve bank's buying rate instead of at the discount rate. Since the discount rate is now considerably above the buying rate it is only natural that credit demands should seek to satisfy themselves by the cheaper method.

In other words the situation as to the demand for Reserve credit remains much the same as before, except that the demands are appearing in a different guise.

It is true that earlier in the year this bank strongly urged an increase in the rediscount rate to 6 per cent as a measure for bringing the bank rate more nearly in line with prevailing open market rates. Coming, however, at this season of the year, a rate advance could not be supported by Reserve bank open market operations, which must of necessity take account of the heavy demands for credit soon to come from trade and agricultural sources. When the discount rate was advanced as a move against the continued absorption of credit by the stock market, some action was necessary at the same time to insure a continued supply of credit for business purposes. Hence the reduction in the buying rate. Without at this time attempting to pass upon the justice of thus permitting non-member acceptance dealers to borrow from the Reserve banks at rates lower than member banks can demand on most of their eligible paper, one may question the effectiveness of contradictory measures of this sort, particularly in the light of what has happened since their adoption.

The Money Market In August

During August the demand for credit has continued without abatement. Reference has already been made to the rise in brokers' loans to new high levels. Commercial and agricultural demands have also continued active, as indicated by the steady rise of unsecured loans reported by the weekly reporting member banks.

Call money rates averaged somewhat lower than in July when a number of unusual factors including the introduction of the new paper currency had a disturbing influence. Opening the month at 10 per cent, the rate touched 12 per cent during the first few days, but then eased to 8 per cent and 7, with an occasional dip to 6. At the month end the usual stiffening carried the rate to 9 per cent. Banks have no desire to make money unduly easy for speculative operations, but are continuing their efforts to iron out the high peaks of rates which are destructive of business confidence.

With speculation active, general business prosperous, and the crop moving and Fall trade at hand, money promises to remain in strong demand for the balance of the year. Stock Exchange time loans continue 8¾-9 per cent, depending on maturity, while open market commercial paper rates since the Federal discount rate increase have advanced slightly to 6¼ per cent for most prime names.

At banks regular commercial customers continue to have no difficulty in obtaining all the accommodation they need at rates substantially under the general market, and by no stretch of the imagination is anything in the nature of a commercial credit shortage to be anticipated. At the same time borrowers on stock market collateral for speculative purposes are finding credit increasingly tight. Word from Chicago indicates that banks there have advanced the rate on collateral loans to brokers to 8 per cent, following an amendment in the Illinois usury law permitting a charge higher than 7 per cent on stock market collateral, and banks in New York and elsewhere are tending more and more to carry such collateral loans as they make to individuals and partnerships on a demand rather than time basis which exempts them from the usury law and permits a higher charge than the legal rate of interest.

Foreign Exchange and Gold Movements

Foreign exchanges were generally weak early in August. During July the tendency of rates had been upward, due possibly to a belief that the Bank of England's discount rate would have to be advanced. Consequently, failure of the Bank to act may have had something to do with the subsequent exchange weakness, and there may also have been some selling in anticipation of the Federal reserve rate rise.

Although most of the principal exchanges showed losses, the decline in sterling was most serious by reason of low levels already ruling for that currency. Ever since August 7 the sterling-dollars rate has been almost continuously below the gold export point for London, and actual shipments of the metal from London to this market totaled $5,000,000. At the same time the British drain of gold to the Continent, principally Paris, has continued, with the result that gold holdings of the Bank of England at the latest reporting date

(August 29) were down to £137,600,000, the lowest since the resumption of gold payments, and approximately £12,000,000 lower than at the time the Bank rate was raised to 5½ per cent last February.

That the Bank of England is determined to avoid if possible the imposition of a higher discount on British industry and trade is evident, but whether or not it will be successful is problematical. It is to be remembered that the season of heaviest pressure on sterling in connection with the Fall commodity movements is now at hand. On the other hand, the lowering of the Federal reserve purchase rate for acceptances, if it leads to a shifting of some of the burden of Fall acceptance financing from New York to London, will be a factor tending to support the Bank in its present policy.

Crops and Markets

Excepting corn and cotton the principal crops are practically matured, and on the whole the results may be considered quite satisfactory from the standpoint of producers. That is to say, while the yields are not exceptional they probably are about right to produce maximum money values in the aggregate. The Department of Agriculture, combining 34 crops, not including cotton, and calculating upon the August 1 conditions reaches an estimate 4.6 per cent under the harvest of last year and 1.4 per cent under the average of the preceding ten years. All calculations indicate that the aggregate income of agriculture from this crop will be larger than from the crop of last year.

Drought has curtailed the grain crops from the yields promised in the early Summer, and it is probable that corn has suffered a further reduction in the past month from the same cause. The corn situation is uneven, varying with the fortune of timely rains.

The winter wheat crop of the Middle West, from Ohio and Michigan to the Mississippi River was very poor in 1928, but better this year, while the crop of Kansas, dropped from 197,361,000 bushels in 1928 to 131,836,000. It is noteworthy that the best wheat yields in Kansas this year are in the western part of the State and the low yields are in the old farming section. In all, the winter crop is estimated at 568,000,000 bushels, against 578,000,000 harvested last year, but it is grown on about 5½ million more acres. The spring wheat crop in the aggregate, including durum. is estimated at 205,000,000 bushels, against 324,000,000 harvested last year. This loss falls mostly on the States of the Northwest, bordering on Canada, where similar conditions prevailed.

The Price Situation

Prices have rapidly responded to the changing prospects for yields, the most pronounced reversal of form being in the wheat markets. No more complete demonstration that the law of supply rules wheat prices could be asked. In the latter part of May all conditions were undeniably bearish. World stocks of wheat were very large, the acreage sown in the United States for the 1929 crop was larger by 5,000,000 acres than last year and the Canadian acreage was higher by about 1,000,000 acres. There was no reason to expect a falling off in production anywhere. The farmers had done their part toward making another record-breaking crop, and in view of the increasing accumulations there developed a marked disinclination to hold wheat or buy flour. Buyers naturally back away from such a situation.

About this time an appeal was made to the railroad companies to reduce freight rates from the Middle West to the seaports, to facilitate exports and clear storage room for the new crop soon to be moving. Reductions were made in this country and the Canadian roads of course reduced their rates to protect the Canadian grain trade, but foreign buying was not stimulated. Foreign buyers were disposed to wait, and as it turned out they made a mistake in doing so. Exports of wheat from the United States and Canada from June 1st to August 22nd have been less than last year—91,105,595 bushels to 99,626,869.

At the end of May, however, with everybody who had wheat wanting to unload and nobody wanting to buy, prices inevitably declined, dipping several cents under $1 per bushel in Chicago. Then reports began to come of drought in Canada and damage by rains in the southwest. The decline was stopped, some recovery took place, and since then weather news has dominated the market. On the whole, the conditions in Canada have grown worse until that country's crop in the Northwest provinces is estimated at not much more than one-half that of last year. Furthermore, conditions in Argentina and Australia indicate crops in both countries smaller than last year, while the crop of Europe, not including Russia, is reported to be about the same as last year. Altogether it is calculated that the world's crop may be 500,000,000 bushels smaller than that of last year. The big carry-over will cover a good part of this shortage, but closer figures are needed than are yet available to determine whether or not there is wheat enough to go around comfortably.

The highest price on the Chicago market for the September option was touched on July 17 at $1.49½ per bushel and the closing on August 29 was $1.32¼ per bushel.

Competitive Buying for Speculation

Foreign markets have lagged behind Chicago and Winnipeg, foreign buyers apparently being slow to accept the damage reports. The situa-

tion has been a very interesting one as illustrating the part which speculation plays in price movements on the grain exchanges. Indeed, it has furnished a very clear demonstration of the service which speculation renders to the grain producers. It was not a demand for immediate consumption which raised the price of wheat 50 cents per bushel in the face of great stocks and before the Canadian harvest had even begun. It was a demand in anticipation of a future scarcity which raised the price of the entire world crop before a bushel of it was needed for consumption. The rise was due to a competitive demand arising among speculators who were wanting to obtain ownership of a commodity which they believed would advance in value.

It has been often said that farmers have no say in the making of the prices of their products, meaning that the individual farmer is practically without influence upon prices and has all the world against him. The remedy has been said to be organization among farmers to act together, but it may be doubted if any organization of farmers would act more promptly, rapidly and effectively than the free markets have acted in the last three months. They have outrun the expectations of the farmers themselves, and there has been no lack of capital to finance the movement.

The point is that wherever a prospect of profit exists the competitive desire to share in it is as reliable a regulator of prices as any that can be found. What seems to be lacking is buying power to hold up prices at a time when in the general opinion of observers there is little or no prospect of a profit.

It would be a venturesome Stabilization Corporation which would bid up the price of wheat faster than it advanced in June and July, and there is reason for thinking that the Federal Farm Board has been profoundly appreciative of the action of the speculative public in taking the wheat problem off its hands this year. One may speculate, however, upon what the situation would have been if weather conditions had been as favorable to the wheat crop in Canada and the United States as they were last year. The theory is that if some strong buying power will persistently take the surplus off the market year after year until the inevitable short crop comes the price may be permanently stabilized. It will require a continued period of surpluses to determine how far the Farm Board and the Congress of the United States will be ready to go in demonstrating this theory.

Congestion at Terminals

Increasing use of the combined harvester and thresher, together with the rise of wheat prices, has resulted in an unprecedented movement of wheat to market this year, and some of the terminals have been so congested that railroads have been obliged to place embargoes upon further shipments.

The embargoes have caused a flood of protests to the Farm Board, particularly urgent whenever prices have turned downward, to which the Board has been unable to make any response except by advising that farmers be less precipitate with their marketing, not only to avert congestion but the effect of such wholesale dumping upon prices. The Board is not empowered to buy products or operate warehouses, but only to lend to the cooperative organizations. The latter are being promoted as rapidly as possible, but the clamor for action raises a question as to whether the demands on the new system will involve a large increase of storage capacity at the terminals. It is open to question whether this will be a sound development of "orderly marketing," for certainly it will mean more rapid marketing even than in the past, not to speak of the uneconomical provision of elevator capacity which can be used only a short time. It is an axiom that the cheapest place of storage is in the farm granaries, and it is not to be forgotten that large reserve stocks in the hands of farmers are a wholesome influence against continuing overproduction.

Official Approval of Hedging Operations

One of the most interesting of the announcements of the Federal Farm Board is to the effect that in making loans to cotton-growers' cooperative associations secured upon cotton, the Board will lend up to 90 per cent of the market value, provided the cotton is hedged by sales in the futures market, i.e., on a public exchange. The policy of requiring operations to be thus hedged is commonly followed by banks in lending on cotton, and is satisfactory to experienced managers of cooperatives dealing in cotton, grain and other products traded in on public exchanges, but the exchanges have been a target for constant attack by many of the political friends of the farmers. The hedging facilities are afforded by what are called "gambling operations"—that is to say, speculative trading.

Now comes the Federal Farm Board and practically requires that the operations of the cooperative associations, in so far as supported by it, shall be based on this trading. The announcement itself would not be so remarkable, but for utterances of members of the Board which have seemed to indicate that a new system of marketing was about to be installed, under which speculative profits would be eliminated and the producers through their cooperatives would maintain a greater degree of control over prices. The reliance upon the exchanges for hedge-protection may be intended only as a temporary

expedient, until the cooperatives have attained greater power, but the questions which are raised are fundamental to the marketing problem. It is admitted that by reason of the breadth of the market hedge-trading on the exchanges affords a protection to legitimate operations in grain and cotton that cannot be had in any other way. The question is whether a market worthy of the name ever can exist without free and open trading facilities.

The requirement that cotton or grain offered as security must be hedged means that some other assurance of value must be had besides an estimate of the cooperative officials and the lending officials. Where is such assurance to be had outside of a public market in which there is wide participation?

And how can wide participation be had in a market which is under anybody's close control? Independent traders are willing to take their chances in judging of free market conditions, but they dislike to operate in a controlled market. With the existing government control of the coffee market in Brazil, speculative trading in coffee is practically eliminated and the result is that the Coffee Institute, which in the last analysis is the Brazilian Government, carries the entire marketing load. Reasoning from this, it may be expected that if the marketing system now being developed in the United States ever obtains effective control of the commodity markets it will have to carry the entire load, without the aid of public exchanges and their hedging facilities.

This is not to say that the new system is without possibilities of usefulness, but only to emphasize that the possibilities do not lie in direct control over prices, but in well-informed adaptation of production to consumptive demands.

Russian Crops

Reports from Russia are to the effect that weather conditions have been favorable this season and that the efforts of the Soviet Government to organize collective farming have met with considerable success, with the result that the harvest is the largest in several years. The "collective" farms are composed of groups which have been supplied with modern machinery and are operated under the direction of supervisors supplied by the Government. This movement has assumed considerable proportions in the last few years, and the central government has also been developing State-owned farms. The hope is to raise the efficiency of farming operations and obtain an important export surplus. Experts from the United States have been employed in numbers, and it was for advice upon this campaign that the Soviet Government invited Mr. Thomas D. Campbell, the famous wheat-farmer of Montana to visit Russia recently. Mr. Campbell seems to have been impressed by the probability of increased production, but does not think Russia will export much grain for several years.

Live Stock and Dairy Products

The cattle and hog markets are as favorable as producers could reasonably ask. At the ten principal markets, receipts of cattle in the seven months ended with July were down 5.82 per cent from the corresponding months of last year and hog receipts were down 10.48 per cent. With employment at a high level the demand for meats has been full and prices have been excellent. This situation seems to be very well stabilized, for cattle production can increase but slowly, and the Department of Agriculture, as the result of extended inquiries conducted through rural mail carriers, predicts that hog supplies will decline rather than increase up to the latter part of 1930.

The sheep and lamb situation has not been quite so favorable. Receipts in seven months increased 5.73 per cent, and the demand has been a little slow. The wool situation in the past year also has been disappointing to sheep owners. Some explanation is to be found in the following paragraph, which we take from the address of the Chairman of the Union Bank of Australia, at the annual meeting of that institution, held in London on July 29th:-

> The production of wool in Australia for 1928-29 is estimated to be the largest ever recorded in the history of the Commonwealth. The figures are estimated to be 2,800,000 bales, against 2,673,000 bales in 1927-28. I have not yet been able to get the particulars of the average values of the 1928-29 season, but I should say that at June 30 last prices for merinos and fine crossbreds were from 25 per cent to 30 per cent lower than at the same period last year, whilst low crossbreds were from 12½ per cent to 15 per cent lower. The average value per bale for wool sold in the first 10 months for the 1928-29 season works out at £21 19s. 4d., against £25 7s. 2d for a similar period 1927-28. The average value per lb. is 16.9d., against 20.1d. for the same period. The Australian sheep returns for 1928 are given as 102,830,000, against 98,779,000 head in 1927.

Dairy products are on a profitable basis. Butter this Summer has been a little under the prices of last Summer, but higher than in any other season since 1920, excepting 1925. Creamery butter production for the first six months of the year totaled 783,685,000 pounds, an increase of 3.2 per cent over the same period a year ago. Net imports were nearly a million pounds less than a year ago and storage stocks increased by 22 million pounds. The trade output for the first six months was estimated at 1,053,281,000 lbs., an increase of 22 million pounds, or two per cent over last year.

Dairy products have maintained remarkable price-stability throughout all the period since 1920. Production has been increasing, but not faster than the demand, and the policy of dairy-farmers in weeding out their cows of low yields has caused the increase of production to yield better results. Professor O. E. Reed,

Chief of the United States Bureau of Dairy Industry, speaking at an anniversary celebration of the Dairymen's Cooperative Creamery of Boise Valley, Idaho, July 12th, said that "last year the farm value of dairy products in the United States amounted to approximately $3,000,000,000, or 26 per cent of the total value of agricultural products." Mr. R. A. Smith, Supervisor of Agriculture of the Union Pacific System, presented figures upon the development of dairying in Idaho, showing that in 1921 the quantity of butter shipped was 49 cars, cheese 85 cars, eggs 13 cars, and poultry 12 cars—a total of 159 cars. In 1927 the shipment of these products had increased to 547 cars of butter, 421 cars of cheese, 219 cars of eggs, and 196 cars of poultry—total 1,383 cars.

The Packers' Consent Decree

Apropos of the requirement of the Federal Farm Board that loans by farm cooperatives shall be protected by hedge sales on the public exchanges, it is in order to mention the change of front executed by twenty-seven farm organizations in passing resolutions asking modification of the "consent decree" entered by the Supreme Court of the District of Columbia, February 27, 1920, restraining the large meat-packing companies from entering the retail meat business and certain other practices in effect or thought to be contemplated.

At the time this decree was entered the defendants were charged with intending to create a monopoly in food products, and without admitting that they had such intention or that it was within their power to do so, the packers, intimidated by threats of adverse legislation, consented to a decree which they now find in some respects seriously hampers their operations. They have asked for a reopening of the case, alleging that merchandising conditions have changed very greatly since the decree was entered. The substance of their plea is to be found in the following paragraph:

> The remarkably rapid growth of chain grocery organizations with immense purchasing power and widespread distributive outlets removes all possibility of monopoly by these defendants in the handling of the food products mentioned in the Decree. Moreover, the entry of chain store organizations into the retailing of meats, with, at present, their expansion into the slaughter-development therein, constitutes a serious menace to the future business life of the defendants under the Consent Decree.

This representation is supported by much detail as to the operations of chain stores and meat markets, and showing that these corporations are operating slaughtering establishments and by their competition curtailing the business of the defendants. Supporting their petition are the resolutions and petitions of such organizations as the America National Live Stock Association, the National Wool-Growers Association, the American Farm Bureau Association and other farm and live stock bodies, numbering twenty-seven in all, most, if not all, of whom in the past have been anything but friendly toward the packers. It now looks to them as though the meat business might pass into hands more interested in the consumers and less considerate of the live stock industry than their then old-time enemies, the packers. Hence, the change of front.

The complaints against the packers were similar to the complaints against the grain exchanges, in both cases due to ignorance of the services actually rendered. It is evident now that there never was any real danger that the packers might obtain a monopoly of food products. It suddenly develops that they must fight even to maintain their position in the slaughtering business. The Federal Trade Commission was ready to recommend that the Government should practically take over the meat packing industry, which should be a lasting warning against bureaucratic radicalism in the future.

The grain and cotton exchanges have provided a highly-efficient and economical system of marketing, open to everybody, with the terms of every sale public. The system of auction-selling tends to supersede private dickering in many lines. The meat packing business has been one of the wonders of modern industry for economical operations and service. Both the public markets and the packers have been bombarded ceaselessly and adjudged guilty on the strength of fears and suspicions, in the absence of evidence. Suddenly and unexpectedly convincing testimony is offered in their behalf.

The packers' petition is set for hearing on October 2nd.

The Cotton Situation

The Government's August report on the cotton crop, based on conditions at the first of the month, indicates a prospective crop of 15,543,000 bales, which is about 1,000,000 bales more than was harvested last year. The acreage is larger than last year and the indicated yield 159.3 lbs. per acre against 152.9 last year. The crop still has a critical period to pass, but the government report is supposed to have made some allowance for this. Much apprehension has been felt of weevil depredations, for the insect has been reported as present in large numbers, but it has been held in check by hot and dry weather. On the other hand while this weather has been adverse to weevil development the cotton plant has suffered under it. The Texas State Commissioner of Agriculture now estimates the crop of that state at 4,356,000 bales, against 5,106,000 bales harvested last year.

The carry-over of American cotton on August 1st was 4,300,000 bales, and together with a

crop corresponding to the Government estimate would give about 20,000,000 bales of available supply, which is about the average of the past five seasons. The average annual world consumption of American cotton is approximately equal to the current estimate of this year's crop. The position of cotton, therefore, favors price stability, provided the estimate is approximately realized.

Tariff Legislation

The extra session of Congress was primarily for the purpose of passing the Federal Farm Board bill. The bill has been passed, an excellent Board has been appointed and organization is progressing according to the plan. If Congress had been content to do no more, the extra session might be considered a success, but its venture into tariff revision seems more likely to lessen than enhance the sum total of popular satisfaction with its work.

One has only to look at the summarized report upon this country's foreign trade in the fiscal year ended June 30, 1929, to realize that tariff revision may seriously interfere with business, even though the intent is to stimulate home production. The figures for the total of that trade in the fiscal year ended June 30, 1929, show exports aggregating $5,374,000,000, a gain of $497,000,000, or 10 per cent over the preceding year. Moreover, exports of finished manufactures amounted to $2,509,000,000, or nearly one-half of the total, and the official statement says that seven-eighths of the total increase was in this class. Imports increased by about 3½ per cent, and according to another official comment the increase was "most pronounced in the case of semi-manufactures," i.e., materials used by our industries.

The trend of development signifies an increasing complexity of trade relations as well as an increasing volume of trade, and tariff revision of course means changes in these relations. Even if made with the greatest possible circumspection such changes are bound to affect many interests unfavorably and the process of revision inevitably stirs up a vast amount of controversy. On general principles business men do not have much confidence in governmental ability to direct business affairs, and the manner in which tariff-making is carried on in hurried committee sessions, does not give assurance as to the expert and judicial character of the work. The National Association of Manufacturers has taken occasion this year to urge that more of the details of tariff-making be turned over to the Tariff Commission, and it is probable that if tariff changes were made in pursuance of careful studies by a permanent commission the schedules as a whole would be more consistent and scientific than as made in the usual way.

However, Congress must make the law and shows little inclination to give over the details to a commission. In truth, and naturally, Congressmen are chiefly interested in the details. They are most interested in the items which concern their own constituents, and usually willing to make concessions elsewhere in order to get these items as they want them. Unfortunately, it does not follow that if each Congressman gets what his constituents want the country as a whole will be benefited, for often their wants are inconsistent and counteracting. It is well known that the weakness in our system of tariff-making is in the lack of consideration for the effects of each schedule upon the industries of the country as a whole.

Conflicting Interests

One of the noticeable features of the hearings before the Committees has been the protests against proposed duties, offered by industries whose costs would be increased by them. It would seem that an industry which will be injured by a proposed action is entitled to as much consideration as an industry which will be benefited. Such duties add to the complications of the system and at least raise a question as to the net results.

In the early years of the country's development there was a manifest object in wanting to diversify the industries and establish an important degree of economic independence, particularly as regards the basic industries and industries sufficiently suited to the country to labor under no economic disadvantages. Now, however, the country has reached a stage of industrial development at which it may well consider which of the industries have the greatest possibilities of growth in their own strength, and shape its policies to avoid placing handicaps upon them for the sake of aiding industries of less inherent worth and small possibilities of development. It is no part of the protective doctrine, rationally interpreted, that the tariff shall make up for natural disadvantages, thus encouraging and supporting ill-advised enterprises. The people of the United States will have enough to do if they confine their labor and capital to industries which are as well suited to this country as to any other, and they will achieve the best results by so doing. Nor is it correct to think of the tariff as dispensing favors to the several industries at the expense of each other. All such thinking leads astray. The purpose of any interference by the government in private business must be to serve the general interest, and by this test each case must be judged.

The attacks upon the policy of protection which are based upon the claim that protected industries make larger profits than other industries usually are ill-founded. Prices and profits are regulated by domestic competition

in all kinds of business, the same whether there is foreign competition or not. Generally speaking, it only confuses a discussion of the tariff to bring in the question of profits. The important question is whether an industry is profitable to the country, in the sense of making an advantageous use of capital and labor. If it is not and is a burden to industries which are, the country would be better off without it.

A manufacturer or farmer who has a diversified production, if he is a good manager, will keep an account with each product and reduce or cut out the ones which do not contribute to his final net profits. He concentrates upon the things that pay best.

The Export Industries

With the great expansion of our export business we have examples of industries which are not only indifferent to foreign competition in the home market, but able to meet competition anywhere in the world. It hardly can be disputed that these industries are entitled to be considered in tariff-making. They ought not to be hampered by tariffs which raise their costs or which create resentment abroad and provoke retaliatory tariffs directed at them.

The growth of our exports develops the importance of fair and reciprocal trade relations with other countries. We can trade products advantageously, but all sales abroad involve trade of some kind. Refusal to trade has the effect of limiting a country's most productive industries. Hence the growth of such industries is involved in our tariff-making, even though they ask no favors for themselves.

A Few Examples

In the pending revision this principle has received recognition in some cases, but not in all. Manganese is required in the manufacture of steel. There are low-grade deposits of manganese ore in several states and representations having been made that with the aid of a tariff on imports this country might be made self-supplying, a duty was placed upon importations some years ago. Developments having been unsatisfactory the Senate Committee has dropped this duty, giving as a reason that it increases the cost of making steel in this country. It would have been better if the duty never had been levied, for it has encouraged fruitless efforts to develop the manganese industry in this country and has been a tax upon every industry using steel, many of which are competing in world markets.

The automobile industry is an outstanding example of industries of the latter class, but all our machinery industries are in that class. We lead the world in automobiles and machinery and these exports represent highly paid labor, whose wages constitute purchasing power in the home market for farm products and the products of all other industries. These exporting industries have a national importance by reason of their highly effective utilization of the national resources. The whole country is interested in their growth, because of the high exchange values which their products command.

The proposed increase of the duties on jute and manufactures thereof will also serve for illustration. It was urged that such increases would enlarge the consumption of cotton weaves, to the advantage of cotton-growers and cotton-manufacturers. It might have a temporary effect of that kind, but the problem of finding the right adjustment between the production and consumption of cotton and cotton goods would be just as far from a permanent solution as now. The principle of substituting a higher grade product for a use which can be served by a lower grade product undoubtedly is wrong, for to whatever extent it might be adopted it would raise industrial costs and finally raise the cost of living. The true object of industrial and governmental policies in production and in trade is to obtain the largest net results in the form of goods, for this serves the general welfare. The Senate Committee took this view in refusing to raise the jute duty.

The proposed duty on hides is one of the most controverted features of the bill. Hides are a by-product of beef production. The object of a protective tariff is to stimulate home production, but hides are not produced for themselves, and it is not at all certain that the interest of beef-producers will be advanced by stimulating the production of more cattle. The cattle-growers are more interested in beef than in hides, and there would be no gain in higher prices for hides if accompanied by lower prices for beef. Moreover, both beef and hides are bringing good prices at present, and probably the cattle-raisers would be just as well off if cattle-production was not given a further stimulus. Furthermore, if hides are made dutiable it is conceded that compensatory duties must be placed upon leather and the manufactures of leather, which raises the question whether the cattle-raiser, after paying higher prices for the family shoes and all other leather purchases will have any net gains from the duty on hides. Furthermore, the country now has an important export business in leather and shoes, which probably would be injured or lost. After all, are such duties worth while?

Trade with Tropical America

Somebody has sent us a California publication carrying a picture of a palm-thatched hut, of the type common in tropical America, with

a family group beside it and under the picture the following note:

Banana Farmers: Proper tariff protection is the only insurance American farmers have against being reduced to conditions portrayed in the above picture.

This is accompanied by the absurd statement that "bananas are putting more American fresh fruit - growers on the racks than any other factor," which puts upon the poor banana-growers all responsibility for the surplus of fresh fruit in California, resulting primarily from the enormous plantings in that State in recent years. We gave in our August number, 1928, the figures showing the increased acreage, and reproduce them herewith:

Percentage Change in Total Acreage of California Fruits Between 1920 and 1925

Crops	Per cent	Crops	Per cent
Figs	+156	Cherries	+ 19
Grapefruit	+103	Prunes	+ 14
Almonds	+ 82	Oranges	+ 7
Apricots	+ 55	Lemons	— 5
Pears	+ 48	Table grapes	+130
Peaches	+ 46	Raisin grapes	+ 66
Plums	+ 46	Juice grapes	+ 46
Walnuts	+ 33	Total grapes	+ 71
Olives	+ 22		
Grand total			43

Bananas were coming into this country while these plantings were going on, and if their competition was worth noticing it might have been taken into account. As a matter of fact the California fruit-growers were not even taking account of what they were doing among themselves, to say nothing of what fruit-growers in Florida or Texas, or other parts of the United States, were doing. Their case furnishes another illustration that home producers do not get rid of competition by excluding foreign competitors.

This article goes on to say, ostensibly on the authority of the Department of Commerce, that Costa Rica, Guatemala, Honduras, Panama, Mexico, Jamaica and Colombia "sent us a total of $266,250,572 worth of goods in 1928," and that

"with the exception of Mexico which, of course, shipped in a lot of oil, these exports to the United States are nearly all agricultural — bananas and coffee — mostly bananas."

In fact, the total importations of fresh fruits of all kinds, from all sources, into the United States in 1928, according to the Department of Commerce, had a value of $42,500,000, of which $35,400,000 represented bananas.

Exports of fresh fruits from the United States in the same year amounted to $56,161,000, and exports of all fruits, including dried and canned, were valued at $127,798,000. Therefore, our fruit-growers on the whole are not suffering by international trade.

It is preposterous to represent the American farmer as in competition with the banana-grower. The latter was born in the jungle, is without capital, education or training, lives in a country that is practically without organized industry, excepting the few industries that are producing for export. These afford almost the only opportunities for him to work for money and buy something from a store. The fruit companies are making him a producer of a wholesome product wanted in world markets and a consumer of goods bought in those markets. He learns to eat wheat flour and other products of the American farm. He learns about sanitation, his children are provided with a school, and the whole family is introduced to moving pictures, which is an introduction to the outside world.

The banana-grower is doing the only work at his hand, and this is what the work is doing for him. He is not impairing the prosperity of the United States; indeed, he is creating for it a new field of trade.

Caribbean Development

The entire Caribbean region is rich in natural resources, which are destined to contribute to world welfare. The mastery of the diseases of the Tropics, which has been achieved in the last thirty years and was first demonstrated convincingly in Cuba and on the Isthmus of Panama, has opened this region to development. The populations need capital and industrial leadership but they have the latent capacity to compensate those who will supply this need. The exports of these countries have multiplied several times over with the development of the banana industry and the imports have increased to correspond. The bulk of this trade is with the United States, because here is the nearest and greatest market and the best transportation service is to this country. Mr. Samuel Crowther in his interesting and instructive book (*) tells the story of this development. After saying that besides other services the United Fruit Company has ninety-odd ships in express service between the principal Caribbean ports and the principal ports of the United States, and showing the important part which that Company and the late Minor C. Keith, one of its founders, had in the development and support of the railroads of Central America, he says:

"The United Fruit Company has bound the two regions by making them interdependent. The banana has become an essential food supply of the United States. The raising of the banana has become an essential industry in all but one of the Central American states. The provision of frequent and regular transportation between the Caribbean ports and the Atlantic seaboard in order to keep a steady flow of bananas northward has put the United States in the most favourable position to supply the Central American states with the goods which they must import—for otherwise the banana ships would have to make their voyages to the southward in ballast. Thus the regions have become complementary and in addition this trade—in the manner in which it is

(*) "The Romance and Rise of the American Tropics," Doubleday, Doran & Company, New York, 1929.

conducted—has added tremendously to the wealth of the southern countries.

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The bulk of the transportation system of Central America rests on the banana for without it many of the railroads would hardly be able to exist and there could be no regular steamship sailings. Thus in a very large measure the coffee trade depends on the banana trade. In a way the banana is to Central America what coal is to Great Britain. It provides the shipping and the trade grows out of the shipping.

Dr. Julius Klein, Assistant Secretary of Commerce, in a radio address delivered a short time since, referring to our trade relations and the influence which the people of the United States are exerting in various ways for world progress, says:

"We musn't appear immodest, but the simple truth is that the economic levels of the entire world are being raised incalculably, and the financial resources of individual countries are being vastly augmented, by reason of the prosperity, the resources, the methods and ideas, and the ever-growing needs of the American people."

It is safe to say that there are few persons in this country who would not be gratified to feel that this is true, and desire that the trade policies of this country should be directed in a manner favorable to such results. There may be persons disposed to regard Dr. Klein's statement as a fancy sketch, but Mr. Crowther's book shows the indisputable benefits to both parties resulting from our trade expansion to the southward.

The Caribbean region is a part of the natural trade area of the United States. The climatic conditions are different and the products naturally are different, affording the opportunity for advantageous trade. The future of this region depends largely upon the attitude and policies of the United States—not as regards annexation or any purpose to control their destinies, but simply as regards economic development and the naturally resulting trade. The question is whether we shall refuse to have trade relations with them, from the petty fear that they will get the best of the trade, or play the part in their development which obviously belongs to us?

It is gratifying that although the argument for a tariff on bananas was vigorously presented before both House and Senate Committees both bodies took negative action. The principle involved, however, reaches beyond the banana.

The Sugar Situation

The case of sugar belongs with the foregoing discussion. The Senate Committee has reduced the rate of duty on world sugar from 3 cents per lb. in the House bill to 2.75, which with the 20 per cent preferential makes the rate on Cuban sugar 2.20. The present price of Cuban sugar in New York harbor, cost and freight included but before payment of duty, is about 2 cents per lb. The proposed duty therefore is more than the import value of the sugar, which certainly is an extraordinary tax for the Government to levy upon a common article of food.

The beet sugar industry urges that even this levy is not high enough to make beet sugar production in this country profitable, a contention which may be accepted as proof in itself that the industry is unsuited to this country. It was brought here from Europe, where the opportunity does not exist, as here, to obtain sugar cheaply from the Tropics, the industry's natural home.

We have presented heretofore the fundamental objections to the proposed expansion of the beet sugar industry in this country. A member of the Senate Committee, defending the action of the Committee, says that there is reason to believe that the industry may be developed to completely supply the needs of the country. Nobody questions this: the objection is to the cost of doing so. Probably the Senator's family could make its own clothes if it cared to do so, but it is placed under no compulsion in the matter.

The sole question is whether the object is worth while at the cost which is involved to the people of both the United States and Cuba.

Nobody is able to show that the proposal has any economic basis. There is no expectation or promise that the sugar supply of the United States ever can be obtained within the country as cheaply as it can be obtained in Cuba and other countries around the Caribbean; and in the second place, although Cuba is not a part of the United States politically it naturally belongs to the same economic system. That is to say, the United States can pay for the products of Cuba in trade, practically as though Cuba was a part of the same political system. Moreover, treaty obligations exist between the United States and Cuba which impose solemn obligations upon both countries and make the relations between them more intimate than those existing between either one and any other country.

The beet sugar industry is claiming a rate of duty sufficiently high to make the industry generally profitable, which means high enough to continue its development and eventually shut Cuban sugar out of this market. Impartial authorities have calculated that on the basis of present consumption this would mean a levy of approximately $400,000,000 per year upon the sugar consumers of this country, and as sugar consumption will increase with the growth of population, the annual levy will increase. If this vast sum would inure to the benefit of the sugar producers, whatever other objection might be raised at least it could be said that no economic loss would result, inasmuch as one group of our people would receive as much as the other group lost. The worst of this proposition is that the extra cost

CANADIAN TRADE

Fiscal Year Ending March 31	Total Imports	Imports from United Kingdom	Imports from United States	Exports to United States
1925-26	$ 927,329,000	$163,731,000	$608,619,000	$485,952,000
1926-27	1,030,892,000	163,939,000	687,022,000	479,335,000
1927-28	1,108,956,000	185,896,000	719,436,000	496,645,000
1928-29	1,265,679,000	194,020,000	868,056,000	521,815,000

to consumers will mean little or no gain to anybody. All of this levy is said to be necessary to induce the farmers to raise sugar beets instead of other crops and capital to go into sugar mills instead of into other investments. Thus producers will receive little or no more than they may get from other farming operations or investments. The extra cost to consumers will represent practically a net loss to the country, from inducing capital and labor to enter an industry economically unprofitable.

Trustworthy calculations show that even if the beet sugar industry was developed to completely supply this country, not over 1 per cent of the arable land of the country would be so employed. The industry, therefore, offers no possibilities of employment or profit to justify the enormous annual cost which its expansion would saddle upon the country. Much is said of the value of sugar beets in a crop rotation, but if the European rotation of sugar beets every seventh year was generally adopted in this country it would result in an annual production of 130,000,000 tons of sugar, or about twenty times this country's present requirement. By no calculation can this industry be made an important factor in the agriculture of the United States.

The fact is that beet sugar development has been unsound ever since its spread from the Mountain States of the West, where it had some economic basis as a means of supplying local consumption a long distance from the Atlantic coast. The more capital is invested in the industry the more serious will be the problem of what to do about it. The tax necessary to maintain it will have less and less justification as the revenues from it decline, and will always be oppressive and unpopular. For this reason the investments induced by the policy always will be on a precarious basis, dependent upon election results. There never will be a better time than now to consider all that is involved in a further expansion of the industry.

Our Canadian Trade

On our northern side are neighbors of a very different type from those in Tropical America, but the same principles apply in trade relations. The Canadians are not cheap, low-wage, competitors. If there is any difference in wages it is due to a broader and at times a more intense demand for labor in the United States, greater congestion in some localities and higher living costs in consequence. There is no question of different standards of living. There is every reason for friendly and considerate cooperation to make the most of the natural wealth of the continent which the two peoples occupy.

For a long time the recorded trade between the two countries has been very much in favor of the United States, if we accept the usual view that an excess of exports over imports is advantageous. The above table gives the official Canadian figures for the last four fiscal years.

In comparing the figures of imports into Canada from the United Kingdom and the United States, it should be borne in mind that trade with the former is favored by a preferential tariff.

It is interesting to separate the trade with the United States into the important trade groups. We present a table covering the year 1928-29.

Trade Between Canada and the United States, Canadian Fiscal Year, Ended March 31, 1929

	Canadian Imports from United States	Canadian Exports to United States
Agricultural and vegetable products (except chemicals, fibres and wood)	$103,690,332	$ 68,278,925
Animal Products (except chemicals and fibres)	42,654,255	86,472,685
Fibres, textiles and textile products	81,889,787	5,985,218
Wood, wood products and paper	50,564,294	235,947,910
Iron and its products	317,089,125	15,195,358
Non-ferrous metals and their products	62,104,988	64,444,952
Non-metallic minerals and their products (except chemicals)	135,154,049	18,891,163
Chemicals and allied products	26,223,786	11,084,298
Miscellaneous commodities	48,685,281	15,514,016
Total	$868,055,897	$521,814,525

It would seem that this is a trade with which the United States might well afford to be content. The bulk of the movement from Canada to the United States consists of natural products. Wood and wood products, including paper, constitute 45.21 per cent of it, while non-ferrous metals (largest items, copper, nickel, silver and gold) constitute 12.35 per cent. Vegetable products constitute 13.08 per cent and animals and their products 16.57 per cent.

Iron and its products, in which machinery is a large item, lead in our exports to Canada, but agricultural and vegetable products constitute 11.94 per cent, non-metallic minerals,

(largely coal and petroleum products) 15.56 per cent and fibres and textiles, 9.43 per cent.

The figures reflect the more varied industrial development of the United States, manufactures constituting the larger part of the movement from this country and natural products the larger part of the movement from Canada.

Sentiment in Canada is agitated over the increases proposed in the pending bill, particularly as they affect meats and dairy products. The rates on cattle (1½ cents per lb. on animals weighing less than 1,050 lbs. each and 2 cents per lb. on animals of that weight, or more) are unchanged in this bill, but the rates on meats are about doubled.

Total exports of living animals from Canada to the United States in the Canadian fiscal year ended March 31, 1929, were valued at $16,154,716, and exports of meats of all kinds to the United States were valued at $10,382,736.

Prior to the enactment of the emergency tariff act of 1921, cattle were admitted free, but receipts were almost wholly from Mexico and Canada, and chiefly from the latter. Neither Mexico nor Canada are corn countries, and their exports for the most part are young cattle, sold in this country as feeders. They have a value here for the aid they give in the consumption of our corn crop, also in furnishing business for our railroads and slaughtering establishments.

Canada exports little butter to the United States—only $71,032 worth in the last year, when it imported over $8,685,257 worth of butter from New Zealand. Fresh milk and cream are exported across the Vermont and New York borders, also into Detroit, in considerable quantities. Total value of milk and its products exported to this country in the last fiscal year was $8,473,375. This movement is from Canadian farms close to the border, which compete in our Eastern cities with milk, cream and cheese from the Middle West.

Imports of cattle into the United States equal in numbers about 1½ per cent of the total receipts of cattle at the public stock yards. Total imports of milk and cream equal in value about one-fourth of one per cent of the total value of this country's dairy products. To whatever extent these duties curtail imports they presumably stimulate home production, and it may be doubted whether the prices obtained by domestic consumers are appreciably increased.

It will be seen that our combined exports of vegetable products and animals and their products to Canada in 1929 was $146,344,587, against total imports from Canada of $154,751,610, so it does not appear that the trade in farm products is against the farmers of the United States. Furthermore, it is to be considered that the Canadian purchases in our markets of other than farm products to the amount of over $722,000,000 supported an indirect demand for farm products through the workers in the industries which is just as truly entitled to consideration as the direct purchases named.

The climatic differences between Canada and the United States — particularly the southern half of the United States—are favorable to a trade in natural products. An article in "Commerce Reports," an official publication of the Department of Commerce, Washington, D. C., February 18, 1929, reviewing this country's fruit exports in 1927, says that "as in previous years most of the citrus fruits and berries and other of the more perishable fruits exported went to Canada."

Taking our entire trade with Canada, and all the relations between the two countries into account, it may be questioned whether vexatious restrictions upon the trade are worth while.

New Branch in Mexico

Last month The National City Bank of New York opened a branch in Mexico City, Mexico, at which every type of banking facility will be available. This is the ninetieth foreign branch of The National City organization, which is now operating in twenty-three foreign countries. Through the branch in Mexico the bank's many depositors in that country will have a direct banking connection with other leading countries throughout the world, and depositors of all other branches will be enabled to secure standardized credit reports and information regarding business conditions in Mexico.

Since the first of the year branches have been established also in Bogota and Medellin, Colombia. The National City Bank of New York (France) S.A. has opened a second branch in Paris, at 44 Avenue des Champs Elysées and is expected to open a branch at Nice, France, in September. The domestic branch system of The National City Bank of New York now comprises thirty-five banking branches in the boroughs of Greater New York, while The National City Company has investment offices in more than fifty leading cities throughout the United States and abroad.

More *than* Brawn

GREAT are the changes wrought in recent years on the American farm. The telephone, the automobile, the radio have ended the farmer's isolation, bringing almost to his door, markets and diversions that once were hours, even days, away. Machines have infinitely lightened the cruel burden of labor. Scientific knowledge has greatly lessened the guesswork of farming. Today farming means more than brawn.

Individuals and enterprises whose prosperity goes hand in hand with the farmer's must, like the farmer himself, keep pace with the changes taking place on the farm.

The First National Group of Banks puts at your disposal its wide sources of information, its intimate contacts with producers and marketers of farm products, and its connections with firms dependent on the farm market, to help you anticipate and profit by the changes that are taking place in the farm situation.

FIRST NATIONAL GROUP

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MINNEHAHA NATIONAL BANK
27th Avenue South at Lake

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BLOOMINGTON-LAKE NATIONAL BANK
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